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SOME ADDITIONAL REMARKS
ON
THE NOVA SCOTIA RAILWAY SYNDICATE,
By **JOHN SMITH.**

The pamphlet which I recently published on the original contract with the Syndicate met with a gratifying measure of success, and has helped to direct general attention to the details and practical effect of the proposed scheme. No criticism worthy of the name has appeared or been attempted. The main propositions remain intact and unassailable. In some instances abuse has been substituted for argument, and mere contradiction for proof. In a matter so gravely affecting the public interests my appeal is to the intelligence and common sense of the community; mere invective in reply is alike beneath contempt or notice. Whether I write anonymously or not is entirely beside the question; the point of real moment is,—are the facts and arguments true, and the conclusions drawn from them legitimate and reasonable? To prevent misconception I may here say that I have not written a single line on this subject for the press. My sympathies have always been and continue to be with the great liberal-conservative party, but I will not follow a mistaken wing of it in an attempt to saddle the Province with a scheme which is demonstrably certain *to imperil its revenues and add to the burdens of the people.*

The Act which is intended to give vitality and effect to the contract is now before the public, and Mr. Holmes has said all that could be said in its favor. No more cumbrous, and, to ordinary readers, confusing a piece of legislation has ever been submitted to the House. Had it been framed with the express purpose of obscuring its scope and intent, and mystifying the public, with its complicated references to the Agreement, Receipt, Charter, Provisional Company, Chartered Company, &c., it could not have been more successfully done. On its face it bears the stamp of patchwork, and is evidently an English composition glossed over with some thin layers of Nova Scotian amendments. A brief attempt will be made to elucidate it somewhat.

The "Provisional Company" is E. W. Plunkett and his associates of the Western Counties Company or others.

The "Chartered Company" is such a Company as he may succeed in inducing to take over from him, and carry out the provisions of his Agreement with the Government.

The "Act of Incorporation," with its imposing array of aristocratic names, is mere *provisional* and *prospective* legislation. It

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may or may not go into effect according as Mr. Plunkett is able to fulfil the conditions imposed, and carry out the promises he has made. The English Directors are not unconditionally committed to the project in the sense which is led to be inferred, but are at liberty to abandon it, provided their preliminary stipulations are not complied with, and further investigation does not recommend the scheme to them. Hence the necessity for extending the time within which the Agreement is to go into operation. Hence the quasi-legislative existence given to the "Provisional Company" (Mr. Plunkett) to enable arrangements to be perfected for the formation of a Company to take over the Agreement. Hence the complicated Act, which in one part incorporates certain persons, and in another provides that "for the purpose of incorporating" them, "*or those who may be substituted for them,*" the Lieut.-Governor may hereafter grant a Charter; which Charter, with any Order or Orders in Council relating to it, is to have the same force and effect as an Act of the Legislature. Briefly, the inferences to be drawn from this curious piece of legislative mechanism are

1. That the "Provisional Company" (Mr. Plunkett) has not succeeded definitely, but only at most contingently, in forming a Company to take over and work the Contract.
2. That the English Directors who are incorporated by the Act may or may not, according to circumstances, become members of the proposed Company.
3. That, therefore, time is to be given Mr. Plunkett further to negotiate, and, if necessary, form new combinations.
4. That accordingly the option is reserved to the Lieut.-Governor at some future time to grant a Charter; which Charter, with the Orders in Council relating to it, *may contain more or less serious modifications of the Agreement for all that the Legislature or the people can tell or prevent.*

The original contract is somewhat varied by the stipulation that the sum of at least \$5,500,000 (inclusive of the £52,000) shall have been provided in "cash, Canada currency, or the equivalent thereof in Government or other bonds or debentures, and deposited *or otherwise secured and applied*" to the purposes of the Agreement. It will be seen that this security need not be in cash, but may be in bonds or debentures. This would be satisfactory enough, however, provided the bonds or debentures were really of value. What is of more moment is that the \$5,500,000 need not necessarily come into the Treasury at all, but may be "*otherwise secured or applied*" to the purposes of the Agreement. In other words a part of it may be applied in buying the Western Counties Railway, and thereby converting the worthless securities of that

Company into valuable Syndicate securities. The public should consider what dependence is to be placed in present promises by the light of past experience. When in 1879, Mr. Piunkett succeeded in inducing Mr. Holmes to grant him a small Provincial guarantee on £50,000, it was stipulated that the whole proceeds of the guarantee should be deposited in the Treasury. The proceeds were \$228,527.76, but of this sum only \$95,981.66 found its way into the Provincial Treasury, the balance having been *applied* — it is not suggested improperly — to the purposes of the Agreement. If it was so in small things what may it be expected to be in large?

The only other matter calling for particular notice is the reference in the Act of Incorporation—which may or may not come into effect—to the Head Office being in Nova Scotia, and meetings of shareholders being held here. Mr. Holmes has further added that the management of the enterprise is to be in the hands of the Local Board. Of course there will be a head office in Nova Scotia for administrative purposes, but it will be noted that power is taken to have offices and hold meetings at places beyond the limits of the Province. It is here asserted, Mr. Holmes to the contrary notwithstanding, that the real executive and management will rest with the English Board, and that the Local Board will merely be a committee to carry out their instructions, and attend to minor details on the spot. It will, indeed, be a *sine qua non* that the entire control and management shall be in, and directed from, London, if English capitalists are to lend their aid and countenance to the scheme. And who are the shareholders who would attend meetings in Nova Scotia? The answer is obvious. It can only be shareholders of the Western Counties Company whose scrip will have been converted into Syndicate scrip. Outside of them, the Nova Scotian who at the present day will risk one dollar as a *bona fide* investment in the ordinary shares of the proposed company would be a natural curiosity the public would like to see.

There are various other minor devices and loop-holes in this remarkable series of Acts, Agreement, Receipt, and Charters to which reference might be made. The original contract, however, remains substantially as it was, and the serious objections to its ratification are as applicable as ever. It was assumed from the tenor of the contract that neither the Syndicate nor the Government intended to proceed with the Nictaux, Pictou and Dartmouth lines, although for a purpose they were made to figure as part of the scheme. They may be now taken as definitely abandoned; but the elimination of the figures in the pamphlet respecting them in no way impairs the main facts presented, or the conclusions arrived at.

I.—*Ability of Syndicate to raise sufficient Funds.*—Throwing off the liabilities under what may now be called the abandoned lines, the Syndicate will still have to find about \$9,000,000 to acquire existing lines, construct the Louisburg Branch, and pay the Government some \$2,350,000 on account of the Provincial interests and the capitalized Sinking fund. It is stated that the whole railways are to be mortgaged, with powers of foreclosure and sale to secure the payment of the Provincial guarantee of \$225,000 annually. Now, it is here emphatically re-affirmed that, if this mortgage is to be a binding and effective instrument, and worth anything more than the paper it may be written on, the only funds in cash that can be raised by the Syndicate will be the proceeds of the guarantee,—an amount utterly inadequate to carry out the scheme. Various astute methods of “making a market” are known to promoters and practised on Stock Exchanges, but no real capitalist will embark a dollar in a *second* mortgage on Nova Scotia Railways, if proper limitations and conditions as to foreclosure and sale are secured under the *first* mortgage.

II.—*The Provincial Liability.*—Under this head Mr. Holmes ingeniously attempts to elude the real issue by harping upon the *increased* liability, which he makes \$73,062 per annum. He arrives at this amount, first, by deducting the present liability of \$30,000 under the Western Counties and Windsor and Annapolis guarantees; second, by applying the miscalled sinking fund, which will exhaust itself in 41 years, to mere interest purposes; and third, by applying the interest on \$1,350,000 in reduction of the guarantee. He triumphantly appeals to the “merest school-boy” if this calculation is not correct. And further on he says, “these are the men from whom we are to abstract nine million dollars in cash, for which *we are only to become liable for \$73,062.*” But Mr. Holmes is reminded that the \$30,000 a year for which the Province is at present liable is not to be *cancelled*; it is merely to be *transferred*, and therefore the liability becomes \$103,062. But, more than this, much capital has been made out of the supposed benefit the Province will derive from getting back \$1,350,000. According to Mr. Holmes: “This investment will yield us the annual sum of \$67,500 continually, which will be ready at any time, with the principal if necessary to respond the guarantee.” “The getting this money into the Treasury will justify us in going on with the building of the Nictaux road.” “We will now be enabled, should this measure not be defeated, to offer to the people of the different counties increased road grants.” How can Mr. Holmes both eat his cake and have it? How can he use \$67,500 *continually* for interest, and at the same time use it for increased road grants? or how can he use the principal to

respond the guarantee, and go on with the Nictaux road, and yet draw \$67,500 per annum from it continually? It is to be feared he will require the assistance of the schoolmaster in addition to that of the schoolboy to verify his calculations. The truth is, that inasmuch as the \$67,500 will inevitably be required to meet the guarantee, the Province will derive no benefit whatever from the vaunted deposit of \$1,350,000. There is no getting over, behind, or beyond the fact that the Province is to become absolutely liable for \$225,000 annually in perpetuity, less some \$54,000 the receipt of which is entirely dependent on the deposit and investment at 5 per cent. of the capitalized sinking fund, and such interest as may be got from the unspent balance of \$1,350,000.

III.—*The Earnings of the Railways.*—The figures and arguments under this head, which were submitted in the pamphlet, are re-asserted with every confidence, and appealed to as incontrovertible in the main. No attempt has been made directly to impugn them. It is true Mr. Holmes stated that "Mr. Murphy, who is well known as an engineer of very great care, felt justified in making an estimate of \$200,000 a year net profit." All that need be said in reference to this is, that if Mr. Murphy did give such an estimate, he did not know what he was talking about; and this is said without any disparagement whatever of his ability as an engineer, or his knowledge regarding the *building* of railways. A very different kind of knowledge and experience is required for the control and *working* of railways. The question is pointedly put: How can railways such as the Western Counties and Eastern Extension, let alone the Cape Breton line, which can only earn from \$500 to \$700 a mile, per annum, be properly maintained and operated, *except at a loss*? All the possible *gains* on the Pictou and Windsor branches will be fully absorbed in making good the *losses* on the extensions, and the Syndicate system for years to come will not do more than barely meet its expenses, leaving nothing whatever to respond the Provincial Guarantee.

In this connection it is asked, What did Mr. Holmes intend to convey by his grandiloquent reference to the Intercolonial Railway as having "actually balanced accounts last year, and during the present year it will turn the balance the other way?" The Intercolonial Railway, which is a great through route, controlling a larger and more profitable business than the Syndicate system ever can, has at length, by means of the most trenchant economy, succeeded in balancing receipts and expenses, *but pays nothing whatever on the \$40,000,000 of capital sunk in its construction.* And yet sane and practical men are asked to believe that the local railways of Nova Scotia, with their miserable traffics, and with no great termini or outlets, will not only earn their working expenses, but \$225,000 a year in addition!

IV.—*The Securities*.—This has been already touched on in the remarks on the \$5,500,000 required to be “deposited or otherwise secured or applied” to the purposes of the agreement. The amount as already shown will be inadequate by some \$3,500,000 to carry out the scheme. But, says Mr. Holmes, we are to have a first mortgage on all the railways, and such “other securities” as the Government may require. Very good. When Mr. Plunkett had his first little guarantee transaction of £50,000 with Mr. Holmes, he palmed off on that innocent, if honorable, gentleman as “other securities” some £200,000 worth of valueless Western Counties debentures. What is to hinder him from repeating the operation by the deposit of equally valueless second or third mortgage bonds or debentures of the Syndicate? Again, as regards the mortgage itself, will Mr. Holmes explain what he means by saying, “there is no reason therefore why the Company should ask the Province to pay one dollar of the \$73,062.” (This should at least be, as already shown, \$103,052, but what does a “few dollars” matter in Mr. Holmes’s calculations.) Having regard to this statement, which surely must have some meaning, may it be enquired if there is an understanding, or if the trust deed is to contain a proviso, that foreclosure and sale shall not take effect in respect of failure to pay the whole guarantee of \$225,000, but only in respect of failure to pay the balance remaining after the \$67,500 and \$54,278 had been deducted? An explanation would be welcome.

In connection with this question of security the people and representatives of Cape Breton should insist, if the measure is to be permitted to pass, that a clause be inserted in the Act to the general effect,—*That, inasmuch as \$900,000 is to be raised on the Provincial Guarantee for railway extension in Cape Breton, that sum in cash shall be deposited in the Treasury, and held by the Government in trust for that purpose, and paid out proportionately when and as the work of construction and equipment proceeds.* No specious arguments or cajolements should induce them to depart from this position if they are really in earnest to secure railway extension.

V. *Eastern Lines*.—Mr. Holmes can take what comfort is possible to him from Sir Charles Tupper’s telegram. It will be seen that my assertion that but for the intervention of the Syndicate scheme the Dominion Government would have retained the Pictou Branch, built the new Pictou and Dartmouth connections, and purchased the Eastern Extension was correct. I am not responsible for the *Chronicle’s* statement as to paying \$650,000 to the Province. The Eastern people should ponder this, and should ask themselves seriously what they are to gain by the transference of their roads to the Syndicate? Can they possibly get the same

accommodation, facilities, fares and rates from a struggling Syndicate that must perforce strain every nerve, exact every dollar, and practise every economy, as they would from a railway operated by the Dominion Government? The answer is obvious and need not be dwelt upon. If the Eastern people desire to secure and maintain for the future the facilities to which they have been accustomed,—if, in fact, the public both east and west desire protection against an increased Tariff or reduced service, they should by their representatives firmly and unanimously insist on the insertion of a clause in the Act to the effect that *Fares and Rates on the Syndicate system shall at no time exceed Fares and Rates for similar services and distances on the Intercolonial Railway*. It is no secret that the Syndicate wished to take the control of the Tariff away from the Local Government. But the Government itself is not to be trusted in this matter, notwithstanding Mr. Holmes's plausible enquiry, "what better guarantee or security do they want, or how could they feel more safe or better satisfied, than by knowing that they were under the control and protection of a Government which is their own creature"? The Government, "which is their own creature," will be *directly interested* in sanctioning and enforcing the *highest possible rates* in order to reduce to the *lowest possible figure* the Provincial liability under the guarantee.

VI.—*The Western Counties Railway Company*.—Nothing whatever has occurred to alter or modify, but much to strengthen the contention that this scheme has been concocted entirely in the interests of Mr. Plunkett and the Western Counties Company. Mr. Holmes, in the courteous criticism with which he favored me, refers to a "mere typographical error" of \$1,000,000, in some figures copied by me from the *Herald*. The *Herald* itself did not correct the error; but, apart from this, Mr. Holmes is hereby assured that the figures were deliberately adopted and are still adhered to in the absence of any authoritative disclaimer from Mr. Plunkett or the Western Counties Company. The contention is, that Western Counties shares and bonds are to be merged in Syndicate shares and bonds. Thus, \$500,000 of that Company's shares will become paid up Syndicate shares, and thus without a dollar of cash the "usual proportion" of paid up capital will be nominally secured. Then \$268,300 of Government guaranteed bonds will be exchanged for Syndicate guaranteed bonds. There will remain about \$1,000,000 of their absolutely worthless bonds outstanding, which when exchanged for Syndicate bonds will at once convert them into valuable securities. It has been already pointed out that the only shareholders who can attend Syndicate meetings in this country will be the present shareholders of that Company. It may be added that, with the exception of Mr. J. B.

Duffus, the Nova Scotia Board is a Western Counties one,— Mr. T. E. Kenny being trustee for bond-holders, Hon. L. E. Baker, President, and Mr. W. D. Lovitt a director of that Company. Is it not clear that the whole scheme is a daring effort to capture all the local railways and hand them over to Western Counties control, in order that this notoriously bankrupt and worthless concern may profit at the expense of the others and of the Province. This would certainly present a spectacle of a very small tail wagging a remarkably large dog. If, as Mr. Holmes says, the management is to be in Nova Scotia, how comes it that the Eastern and other interests are entirely unrepresented on the Board? Has Cape Breton,— has Antigonish, Pictou and Colchester, — has Hants, Kings and Annapolis no interest in this matter that they so quietly permit their railways to be absorbed by and managed in the interests of Yarmouth? But, says Mr. Holmes in a patriotic outburst, “these are “the men selected to manage this vast enterprise which is almost “equal to half the Pacific Railway itself and equal to the Inter-“colonial Railway in regard to the length of road and the “importance of its character as a commercial work.” Mr. Holmes’ geography seems to have been as much neglected as his arithmetic, and he is recommended to refer to the “merest schoolboy” for the information that the Syndicate system will only be *one half* the length of the Intercolonial and not *one-sixth* that of the Canadian Pacific Railway, and that it must necessarily be incalculably inferior to either in the “importance of its character as a commercial work.”

Did time and inclination serve, Mr. Holmes’s “masterly” speech might be dissected, paragraph by paragraph, and shown to consist of a farrago of assumptions, inconsistencies, fallacies and miscalculations. Neither serves, however, nor indeed is it worth the while. Accordingly I have only dealt here with those points which had a direct bearing on this enquiry. I leave the question now (and it is not likely I shall say anything further on the subject) to the dispassionate consideration of the Legislature and the people. In these remarks, the main conclusions arrived at are but briefly summarized,—the facts and arguments of which they are the result are treated at more length in the pamphlet. These conclusions are irresistible, and the public and their Representatives are warned to pause and seriously consider them before they launch the country on so perilous a career. The question is not one which it requires a statesman to grasp and understand,—any ordinary business man, any man of intelligence and forethought can easily see, when the matter is put fairly before him, to what disastrous issues this Syndicate project will certainly lead.

Halifax, 1st Feb., 1882.